

# FISCAL NOTE

**Bill #:** HB0318

**Title:** Tuition tax credit

**Primary**

**Sponsor:** Walters, Allan

**Status:** Introduced

Sponsor signature	Date	Dave Lewis, Budget Director	Date
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## Fiscal Summary

	<b><u>FY2000 Difference</u></b>	<b><u>FY2001 Difference</u></b>
<b>Expenditures:</b>		
General Fund	(\$3,879,250)	(\$7,644,250)
<b>Revenue:</b>		
General Fund	(\$15,286,000)	(\$17,204,000)
<b>Net Impact on General Fund Balance:</b>	(\$11,406,750)	(\$9,559,750)

<b><u>Yes</u></b>	<b><u>No</u></b>		<b><u>Yes</u></b>	<b><u>No</u></b>	
X		Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

## Fiscal Analysis

### ASSUMPTIONS:

1. K-12 enrollment reported to the Office of Public Instruction for October 1998 is as follows:

	<u>Elementary</u>	<u>High School</u>	<u>Total</u>
Public Enrollment	109,434	50,566	160,000
Nonpublic			
Private	6,664	2,008	8,672
Home School	<u>2,629</u>	<u>768</u>	<u>3,397</u>
Total	118,727	53,342	172,069

- The tuition tax credit provided in HB 318 applies to parents who have enrolled their child in a private school, a home school, or a public school outside the district of residence through a discretionary tuition agreement and for whom the parent is paying tuition, books or fees. The tuition tax credit of \$1,200 applies to tax years 1999 and beyond.
- It is assumed that on average, parents of home school children will be eligible for \$600 of the credit.

(continued)

4. In each year of the biennium, 5% of students currently attending home school will switch to private schools.
5. Beginning in school year 1999-2000, 1% of the students in public school will move to schools other than the one to which they would normally be assigned; another 1% of the students enrolled in public schools to which they normally would be assigned will move in the 2000-2001 school year.
6. The total school age population will decline approximately 1.5% per year.
7. Transfers between districts of public school enrollments for whom parents pay tuition are currently about 780 students each year. They are expected to increase 5% per year. These children would be eligible for the tax credit, but their children would not be removed from the public school system.
8. Public schools who are currently waiving tuition charges do not initiate charges in response to this potential credit to parents.
9. The total number of full credits is expected to be 11,222 in FY 2000 and 12,834 in FY 2001. The number of half credits (from home school assumption 3.) will be 3,227 in FY 2000 and 3,014. For a total cost of \$15,286,000 in FY 2000 and \$17,204,000 in FY 2001.
10. The state general fund cost per student is \$2,430/ANB, including direct state aid (\$1,697) and guaranteed tax base aid (\$733). As students leave the public school system, state costs will decline by \$2,430 per student. Direct state aid and guaranteed tax base aid costs will decrease by \$3,888,000 in FY00 and \$7,653,000 in FY01.
11. If a parent, after submitting a statement of intent to transfer a child from a public school to a private school, does not subsequently transfer the child, a district may be able to adopt a budget amendment to increase the district general fund budget to accommodate the returning student. If the district receives a 6% or greater increase in ANB, the district may adopt a budget amendment to increase the district general fund budget and apply for additional direct state aid. The district will receive additional direct state aid, but will not receive special education or GTB funding for the returning student(s). Any funding for the budget amendment in excess of the direct state aid will need to come from local sources.
12. The Office of Public Instruction will design, print and disseminate a form on which parents will declare their intent to claim an educational tax credit. HB 318 requires that the form be distributed to every public school student. OPI will also need to print forms for distribution to parents of non-public school students. OPI will print and disseminate 175,000 forms at a cost of \$.05 per form or \$8,750.
13. Because the bill will go into effect for tax years after January 1, 1999, the first fiscal year that will be affected will be fiscal 2000.
14. The credit allowed is a "refundable credit"; that is, the credit amount in excess of the taxpayer's liability will be refunded to the taxpayer.
15. The full revenue impact of the tax liability impact occurs in the following fiscal year.
16. No estimate has been made for the amount of credit that parents of students in the public schools could claim under the provisions of HB 318 for tuition, books, and fees paid for: summer school, tutoring, drivers education, athletics, or courses available privately or publicly. These courses would include Internet, college, music, technical training, science, arts or agriculture.

FISCAL IMPACT:

	<u>FY2000</u> <u>Difference</u>	<u>FY2001</u> <u>Difference</u>
<u>Expenditures:</u>		
Operating Expenses (OPI)	\$8,750	\$8,750
Transfers	<u>(3,888,000)</u>	<u>(7,653,000)</u>
TOTAL	(\$3,879,250)	(\$7,644,250)

Funding:

General Fund (01)	(\$3,879,250)	(\$7,644,250)
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Revenues:

General Fund (01)	(\$15,286,000)	(\$17,204,000)
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Net Impact to Fund Balance (Revenue minus Expenditure):

General Fund (01)	(\$11,406,750)	(\$9,559,750)
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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

School districts will lose state aid to the extent that students re-enroll in public schools after their parents have declared an intent to claim an education credit. If parents are uncertain as to whether they will transfer their child to a non-public school, the parents may file an intent form just in case. If the student does not subsequently transfer, the local district will bear the full cost of the educating the child, with no support from the state.

LONG-RANGE IMPACTS:

In future years the cost or savings to the state from HB 318 will be determined primarily by increases in the tax credit and the number of taxpayers who enroll students in private schools rather than public schools. If no public school students claim credit for other education as noted in assumption 16 and other assumptions in the analysis hold, then the cost to the state would be neutral or positive when more than 10,250 students move from public schools to private schools.

TECHNICAL NOTES:

1. Tax forms are generally prepared and distributed by the Montana Department of Revenue (DOR). HB 318 requires that the Office of Public instruction (OPI) create and disseminate the form for a parent to declare the intent to claim an education tax credit. These forms are returned to OPI and forwarded to DOR.
2. Parents who pay tuition for their child to attend a public school outside the district of residence will be eligible for the tuition tax credit and will complete the form to claim a tax credit. However, their children will not be removed from the public school system. The claim form will need to distinguish between parents who enroll their children in non-public schools and those who intend to claim a credit for enrollment in a public school outside the district of residence. Students whose parents fall into the second category should not be removed from a district's ANB count.
3. If a parent files a declaration of intent to transfer a child to a non-public school, but does not subsequently transfer the child, the public school district, in most cases, would not have a means of recovering the direct state aid and budget authority that the child would generate for the district.
4. It is unclear if kindergarten students in private schools would be eligible for the tax credit as Title 20, chapter 5, part 1 makes no specific reference to these children.
5. It is questionable if this legislation is constitutional due to the language in Section 6 of the constitution. Section 6 reads as follows: "Aid to sectarian schools. (1) The legislature, counties, cities, towns, school districts, and public corporations shall not make any direct or indirect appropriation or payment from any public fund or monies, or any grant of lands or other property for any sectarian purpose or to aid any church, school, academy, seminary, college, university, or other literary or scientific institution, controlled in whole or in part by any church, sect, or denomination." (Emphasis added)